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FEDERAL DIVERSIPLEX LIMITED

Annual Report
for the year ended April 3, 1976



BOARD OF DIRECTORS

*W. R. Abbott Toronto
*G. L. Davis Toronto
**D. E. Foyston Toronto
C. H. Franklin Toronto
A. W. Walker Toronto
Audit Committee Chairman (**) and Members (*)

EXECUTIVE OFFICERS

C. H. Franklin Chairman of the Board
A. W. Walker President
W. R. Abbott Vice-President and Secretary

AUDITORS

Coopers & Lybrand Toronto

SOLICITORS

Fasken & Calvin Toronto

BANKERS

The Royal Bank of Canada Toronto

STOCK LISTING

Toronto Stock Exchange Toronto

REGISTRAR & TRANSFER AGENT

National Trust

Company, Limited Toronto and Montreal

EXECUTIVE OFFICES

931 Yonge Street Toronto

Report to Shareholders:

The actions proposed in the last Annual Report have been implemented to a large degree, with resulting increase in profit as set forth in the annual accounts.

To date sale or total lease of the 54,000 ft. main production plant has not been achieved but several active possibilities are being investigated.

The HONEYDEW Division is performing well and profit from that source should increase with anticipated additional volume.

The Panaray Division (pre-peeled fresh vegetables) is enjoying more of the institutional market.

Redi-Brand pre-cooked potatoes in non-frozen flexible pouches have gained some market acceptance and experimentation on this revolutionary method of food processing is continuing.

Sale of machinery and equipment related to vegetable operations was made to Hardee for \$449,555 as approved at the last Annual and Special General Meeting. Most of the proceeds from this sale have been reinvested in further prime agricultural acreage and in improved and expanded potato storage facilities.

On behalf of the Board,

C. H. Franklin
Chairman

July 6, 1976

Consolidated Statement of Earnings

FOR THE YEAR ENDED APRIL 3, 1976

	1976	1975 (restated note 13)
	\$	\$
NET SALES	3,548,911	3,741,560
COST OF SALES AND OTHER EXPENSES	3,209,438	3,511,978
DEPRECIATION	87,512	102,914
	<u>3,296,950</u>	<u>3,614,892</u>
	251,961	126,668
INTEREST	48,968	115,391
	<u>202,993</u>	<u>11,277</u>
PROVISION FOR INCOME TAXES	97,000	5,300
EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	105,993	5,977
EXTRAORDINARY ITEMS (note 8)	120,106	5,300
NET EARNINGS FOR THE YEAR	<u>226,099</u>	<u>11,277</u>
EARNINGS PER SHARE:		
Earnings before extraordinary items	<u>12¢</u>	<u>1¢</u>
Net earnings for the year	<u>25¢</u>	<u>1¢</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED APRIL 3, 1976

	1976	1975
	\$	\$
RETAINED EARNINGS — BEGINNING OF YEAR	1,102,082	1,090,805
Net earnings for the year	226,099	11,277
RETAINED EARNINGS — END OF YEAR (note 7)	<u>1,328,181</u>	<u>1,102,082</u>



Consolidated Balance Sheet as at April 3, 1976

ASSETS

	1976	1975
	\$	\$
CURRENT ASSETS		
Accounts receivable	224,028	386,429
Amounts due from parent company	217,381	—
Inventories (notes 1 and 2)	475,987	782,840
Current portion of debenture receivable (note 3)	54,087	20,000
Prepaid crop and other expenses	173,481	58,906
	<u>1,144,964</u>	<u>1,248,175</u>
DEBENTURE RECEIVABLE, less current portion (note 3)	—	54,087
FIXED ASSETS (notes 1 and 4)	1,928,488	2,205,512
PRODUCT DEVELOPMENT COSTS (note 5)	116,548	41,992
TRADEMARKS — HONEYDEW AND GOODWILL — at cost (note 1)	488,004	484,726
	<u>3,678,004</u>	<u>4,034,492</u>

Signed on behalf of the Board:

C. H. FRANKLIN, DIRECTOR

D. E. FOYSTON, DIRECTOR

Auditors' Report to The Shareholders

We have examined the consolidated balance sheet of Federal Diversiplex Limited as at April 3, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

LIABILITIES

	1976	1975
	\$	\$
CURRENT LIABILITIES		
Bank advances (note 6)	238,061	847,037
Accounts payable and accrued liabilities	281,649	255,260
	<u>519,710</u>	<u>1,102,297</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized —

1,500,000 common shares without par value

Issued —

891,380 common shares 1,830,113 1,830,113

RETAINED EARNINGS (note 7)	1,328,181	1,102,082
	<u>3,158,294</u>	<u>2,932,195</u>
	<u>3,678,004</u>	<u>4,034,492</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 3, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

May 19, 1976

COOPERS & LYBRAND
Chartered Accountants



Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED APRIL 3, 1976

SOURCE OF FUNDS	1976 \$	1975 \$
Earnings for the year before extraordinary items	105,993	5,977
Add: Depreciation and other items not requiring an outlay of funds	87,512	101,539
Total from operations	193,505	107,516
Reduction of income taxes on application of prior years' losses	102,000	5,300
Debenture and mortgage receivable	54,087	48,500
Proceeds on disposal of fixed assets	459,661	—
	<u>809,253</u>	<u>161,316</u>
USE OF FUNDS		
Purchase of fixed assets	234,543	278,283
Deposits on purchase of land	17,500	—
Trademark and development costs	77,834	48,252
	<u>329,877</u>	<u>326,535</u>
INCREASE (DECREASE) IN WORKING CAPITAL	479,376	(165,219)
WORKING CAPITAL — BEGINNING OF YEAR	145,878	311,097
WORKING CAPITAL — END OF YEAR	<u>625,254</u>	<u>145,878</u>

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED APRIL 3, 1976

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include all the subsidiaries of the company.

(b) Inventories

Inventories include foodstuffs and supplies which are valued at the lower of cost and net realizable value.

(c) Fixed assets

Fixed assets are depreciated on the basis of rates which are estimated to be sufficient to reduce the carrying value of the assets to residual value over their useful lives.

(d) Goodwill

Acquisition costs of each purchased subsidiary are allocated to that subsidiary's identifiable net assets on the basis of estimated fair values at the date of acquisition with any excess being carried as goodwill.

(e) Foreign exchange

Individual assets and liabilities in U.S. dollars have been stated at par, and an adjustment has been made in the accounts to give effect to the conversion of net current assets in U.S. dollars to Canadian dollars at the rate of exchange prevailing at the year-end.

2. INVENTORIES

Inventories are classified as follows:

	1976 \$	1975 \$
Foodstuffs	135,083	326,389
Packaging materials	21,614	69,985
Finished goods	319,290	386,466
	<u>475,987</u>	<u>782,840</u>

3. DEBENTURE RECEIVABLE

	1976		1975
	Current	Long-term	Total
	\$	\$	\$
Calvert-Dale Estates Limited, 7¼% convertible sinking fund debenture, due December 16, 1976 ...	54,087	—	54,087
			74,087

4. FIXED ASSETS

Fixed assets are stated at values appraised in 1961 with subsequent additions at cost.

	1976	1975
	\$	\$
Buildings and equipment	1,641,184	3,597,892
Accumulated depreciation	581,572	2,243,756
	1,059,612	1,354,136
Land	868,876	851,376
	1,928,488	2,205,512

5. PRODUCT DEVELOPMENT COSTS

Product development costs represent the net expenditures in the research and marketing of the Redi-Brand line of product. During the year the company received government assistance in the amount of \$12,178 and to date has received \$80,477 which has been applied as a reduction in the amount shown on the balance sheet.

6. BANK ADVANCES

Bank advances are secured by book debts and inventories.

7. RETAINED EARNINGS

Retained earnings includes a balance of \$784,933 representing the excess of appraised value of fixed assets over cost thereof in 1961.

8. EXTRAORDINARY ITEMS

	1976	1975
	\$	\$
Gain on sale of assets (less applicable income taxes of \$15,000)	18,106	—
Reduction of income taxes on application of prior years' losses	102,000	5,300
	120,106	5,300

9. REMUNERATION OF DIRECTORS AND OFFICERS

In accordance with the requirements of Section 122.2 of the Canada Corporations Act, the following information is reported:

	Number	Remuneration
		\$
Directors (3 are also officers)	5	1,500
Officers	7	46,907

10. FUTURE INCOME TAXES

The company has a loss available for tax purposes expiring in 1977 of	10,000
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	401,000
The tax effects of the above have not been reflected in the accounts	411,000
In addition future income tax payments could be deferred by refiling tax returns and claiming additional capital cost allowance and deductions in respect of cumulative eligible capital in the amount of approximately	397,000
	808,000

Future income tax payments may also be reduced in future years, depending on the maximum allowed for tax purposes each year, by claiming deductions in respect of cumulative eligible capital in the amount of \$161,500.

11. ANTI-INFLATION ACT

The company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

There does not appear to be any impact of the legislation on the company's profit margins, prices and compensation arrangements for the current year.

12. SUBSEQUENT EVENT

Subsequent to the year end, prime agricultural acreage was acquired by the company for \$373,000 of which \$85,500 was paid in cash and the balance in 8½% mortgages maturing in 1981.

13. COMPARATIVE FIGURES

Comparative figures have been restated in accordance with the current year's presentation.



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